

## Message Text

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ACTION AID-05

INFO OCT-01 AF-06 ISO-00 EB-07 L-02 IGA-01 SS-15 SP-02

H-01 IO-10 OMB-01 AGR-05 COME-00 TRSE-00 STR-01 RSC-01

FEA-01 NEA-09 INR-07 CIAE-00 NSAE-00 /075 W

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P R 071249Z JAN 75

FM AMEMBASSY NAIROBI

TO SECSTATE WASHDC PRIORITY 768

INFO AMEMBASSY DAR ES SALAAM

LIMITED OFFICIAL USE SECTION 1 OF 2 NAIROBI 0138

E.O. 11652: N/A

SUBJECT: ECONOMIC CRISIS: REVIEW OF KENYAN BALANCE  
OF PAYMENTS SITUATION

REF: STATE 275634

1. SUMMARY: IMPORT CONTROLS AND RESTRICTIVE MONETARY POLICIES ADOPTED EARLIER THIS YEAR TO LIMIT ALREADY LARGE TRADE AND PAYMENTS DEFICIT BEGINNING TO TAKE HOLD. THESE POLICIES HAD LITTLE EFFECT IN 1974 WHEN DEFICIT IN BALANCE OF PAYMENTS WAS ESTIMATED \$150 MILLION. PAYMENTS/DEFICIT IN 1975 FORECAST AT \$135 MILLION. RESTRICTIVE MEASURES NECESSARY TO DEAL WITH PAYMENTS DEFICIT HAVE SLOWED REAL GROWTH OF ECONOMY TO APPROXIMATELY 5 PERCENT IN 1974 AND WILL SLOW REAL GROWTH IN 1975 TO 2 PERCENT. WITH KENYA'S EXTREMELY HIGH RATE POPULATION GROWTH, THIS MEANS NO GROWTH IN REAL PER CAPITA GDP DURING TWO-YEAR PERIOD. KENYA WILL NEED LARGE AMOUNTS OF CONCESSIONAL FINANCING IN 1975 AND BEYOND UNTIL LONG-TERM MEASURES OUTLINED BELOW TAKE HOLD. END SUMMARY.

2. BALANCE OF PAYMENTS DATA: 1973 DATA FROM GOK SOURCES ARE PRELIMINARY; 1974 DATA ARE ESTIMATES BY MISSION/EMBASSY BASED ON 9 MONTHS TRADE DATA; 1975 DATA ARE FORECASTS BY MISSION/EMBASSY - ALL DATA IN MILLIONS OF U.S. DOLLARS; 1973 AND 1974 DATA CONVERTED FROM KENYA SHILLINGS AT 7.1428 PER DOLLAR

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	1973	1974	1975	
EXPORTS	450	570	680	
COFFEE	100	130	110	
TEA	50	55	65	
POL	60	110	130	
IMPORTS	603	920	1050	
POL	65	200	220	
FERTILIZER	12	35	45	
FOODGRAINS	14	25	25	
TRADE BALANCE	-153	-350	-370	
NET SERVICES	55	45	45	
NET TRANSFERS	24	25	35	
CURRENT BALANCE	- 74	-280	-290	
OFFICIAL CAPITAL	53	85	115	
U.S.	3	13	10	
DAC	40	45	60	
OPEC	0	0	0	
COMMUNIST	0	0	0	
IBRD/IDA	8	23	40	
UN	2	4	5	
NET PRIVATE CAPITAL	45	45	40	
ERRORS AND OMISSIONS	4	-	-	
OVERALL BALANCE	27	-150	-135	
FINANCED BY				
IMF OIL FACILITY	0	40	0	
IMF OTHER	0	15	35	
OTHER SHORT TERM				
CREDITS	0	25	25	
CHANGE IN RESERVES	27	-70	-75	
DEBT SERVICE				
RATIO (PERCENT)	3.5	6.0	9.0	
GROSS FX RESERVES				
(DEC. 31)	230	150	75	

3. PRICE ASSUMPTIONS PARA 4A REFTEL USED WHERE APPLICABLE. OTHER ASSUMPTIONS AND PROJECTIONS USED TO OBTAIN MISSION/EMBASSY ESTIMATES FOR 1974 AND FORECAST 9175 ARE:

A. 1974 NO BAOIL IMPORTS INCREASE 25 PERCENT IN PRICE AND 5 PERCENT IN VOLUME.

B. 1974 NON-OIL EXPORTS INCREASE 15 PERCENT IN PRICE AND LIMITED OFFICIAL USE

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5 PERCENT IN VOLUME.

C. 9174 OIL IMPORTS INCREASE 350 PERCENT IN PRICE AND DECREASE 5 PERCENT IN VOLUME.

D. 1974 OIL EXPORTS INCREASE 200 PERCENT IN PRICE AND DECREASE 10 PERCENT IN VOLUME.

E. 1975 NON-OIL IMPORTS INCREASE 20 PERCENT IN PRICE AND DECREASE 5 PERCENT IN VOLUME.

F. 1975 NON-OIL EXPORTS INCREASE 10 PERCENT IN PRICE AND

10 PERCENT IN VOLUME.

G. 1975 OIL IMPORTS INCREASE 15 PERCENT IN PRICE (AS PER REFTEL) AND DECREASE 5 PERCENT IN VOLUME.

H. 1975 OIL EXPORTS INCREASE 15 PERCENT IN PRICE AND 5 PERCENT IN VOLUME.

I. THE KENYA SHILLING WILL BE DEVALUED BY 15 PERCENT IN THE FIRST QUARTER OF 1975.

J. THE GOK CREDIT RESTRAINT PROBLEM WILL NOT BE SIGNIFICANTLY EASED UNTIL MID-1975.

K. IMPORT CONTROLS WILL CONTINUE THROUGHOUT 1975 BUT THE GOK WILL NOT SIGNIFICANTLY INCREASE SCOPE OR SEVERITY OF CONTROLS.

L. IMF WILL NOT HAVE SECOND OIL FACILITY AVAILABLE IN 1975 AND KENYA WILL BE FORCED TO USE OTHER IMF FACILITIES INCLUDING AT LEAST ONE CREDIT TRANCHE IF NEW SPECIAL FUNDING IS NOT CREATED.

M. OTHER EXOGENOUS CONDITIONS OBSERVED AT 1974 YEAR END, E.G., WEATHER, POLITICAL STABILITY, WILL CONTINUE THROUGH 1975.

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4. ESTIMATED REAL GROWTH IN 1974 (FROM GOK SOURCES) 5 PERCENT; FORECAST REAL GROWTH IN 1975 (MISSION/EMBASSY FORECAST) 2 PERCENT. MARGINAL EFFECT OF ENERGY CRISIS (TAKEN TO MEAN ALL RAMIFICATIONS OF CRISIS NOT JUST OIL PRICE INCREASE) 2 PERCENT IN 1974 AND 4 PERCENT IN 1975. RELATIVELY SMALL MARGINAL EFFECT IN 1974 DUE TO KENYAN WILLINGNESS TO SUFFER LARGE

PAYMENTS DEFICIT RATHER THAN TAKE ACTIVE MEASURES TO LIMIT CONSUMPTION OF PETROLEUM PRODUCTS.

5. EFFECT ON NEAR TERM IMPORT/EXPORT POLICIES AND PROGRAMS:  
SEE NAIROBI A-56, JUNE 28, 1974 ON IMPORT RESTRICTIONS. SEE NAIROBI A-110, NOV. 15, 1974 ON EXPORT SUBSIDY PROGRAM. SEE NAIROBI A-120, DEC. 13, 1974 ON FOREIGN EXCHANGE RESTRICTIONS. SEE NAIROBI A-106, NOV. 1, 1974 FOR GENERAL DISCUSSION OF BALANCE OF PAYMENTS SITUATION AND GOK SHORT TERM POLICIES.

6. LONGER TERM OUTLOOK:  
A) IMPORT/EXPORT POLICIES: THESE POLICIES WILL BE CLOSELY TIED TO A REVISION OF GOK'S OVERALL DEVELOPMENT STRATEGY. IMPORT SUBSTITUTION, WHICH HAS BEEN HIGHLY DEPENDENT ON IMPORTED CAPITAL GOODS AND RAW MATERIALS, WILL BE DE-EMPHASIZED AS BASIC DEVELOPMENT STRATEGY AND INCREASE EMPHASIS PUT ON AGRICULTURE AND EXPORTING INDUSTRIES.  
B) OVERALL DEVELOPMENT STRATEGY: GOK 1974-78 DEVELOPMENT PLAN LIMITED OFFICIAL USE

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PREPARED PRIOR FULL IMPACT ENERGY CRISIS, INFLATION KNOWN. PLAN AS PUBLISHED PROPOSED EMPHASIS ON RURAL DEVELOPMENT AND RAISING RURAL INCOMES. PLAN INCLUDED DOUBLING OF DEVELOPMENT EXPENDITURES FOR AGRICULTURE. GOK NOW IN PROCESS REVISION PLAN, REPORTEDLY INCLUDING 75 PERCENT INCREASE DEVELOPMENT SPENDING FOR AGRICULTURE. IMPLEMENTATION PLAN PROPOSALS AND ACHIEVEMENT PLAN TARGETS, INCLUDING RESTRUCTURING BASIC DEVELOPMENT STRATEGY FOCUS ON EQUITY CONSIDERATIONS, RURAL DEVELOPMENT AND LABOR INTENSIVE PROGRAMS, HIGHLY DEPENDENT ON GOK ABILITY TO DEVELOP PROJECTS AND PROGRAMS TO ACHIEVE THESE GOALS. SUCH CAPABILITY LACKING; CONSEQUENTLY, SO FAR GOK HAS BEEN UNABLE TO MOVE VERY FAR IN THIS DIRECTION. WHILE GOK MAY NO LONGER BE ABLE TO AFFORD EXPENSIVE CAPITAL IMPORTS AND EXPATRIATE MANAGERS TO SUSTAIN CONTINUED RAPID GROWTH IMPORT SUBSTITUTION INDUSTRIES WHICH FOCUS EARLIER DEVELOPMENT ACTIVITIES, MORE CRUCIAL QUESTION NOW SEEMS TO BE ABILITY TO FOLLOW THROUGH ON IMPLEMENTATION 1974-78 PLAN AS REVISED.

C) MEDIUM-LONG TERM GROWTH RATES: MISSION/EMBASSY UNABLE TO PROJECT LONG-TERM GROWTH RATE DUE TO UNCERTAINTY OF FACTORS INVOLVED, BUT IT SAFE TO SAY THAT KENYA WILL NOT MAINTAIN NEAR 7 PERCENT RATE OF FIRST DECADE OF INDEPENDENCE.

D) ENERGY ADJUSTMENT PLANS: OTHER THAN PASSING MOST OF THE COST INCREASE OF CRUDE OIL ON TO THE CONSUMER AND IMPOSING SMALL TAX INCREASE (WHICH TOGETHER PRODUCED A 53 PERCENT INCREASE IN RETAIL GASOLINE PRICES) THE GOK HAS TAKEN NO POSITIVE STEPS TO LIMIT PETROLEUM CONSUMPTION; THERE IS LITTLE POSSIBILITY OF CONVERTING TO NON-OIL BASED SOURCES OF ENERGY IN THE NEAR TERM. FOR THE LONGER TERM, GOK PLANS TO ACCELERATE DEVELOPMENT OF GEOTHERMAL POWER PRODUCTION AND IS HOPEFUL OIL AND COAL IN COMMERCIAL QUANTITIES WILL BE FOUND IN KENYA. SEVERAL MULTINATIONAL

COMPANIES ARE PROSPECTING FOR OIL IN KENYA; TWO U.S. BASED COMPANIES ARE OPTIMISTIC ABOUT CHANCE OF FINDING OIL AND WILL BEGIN THEIR DRILLING PROGRAMS IN 1975. ANOTHER U.S. BASED MULTINATIONAL CURRENTLY EXAMINING COAL DEPOSIT IN SOUTH-EAST KENYA TO DETERMINE COMMERCIAL VIABILITY. IF DEVELOPED, ANY ONE OF THESE THREE POSSIBLE ALTERNATIVE SOURCES OF ENERGY MIGHT GO LONG WAY TO RELIEVE KENYAN DEPENDENCE ON IMPORTED OIL.

E) INCOME DISTRIBUTION: NEAR TERM IMPLICATION OF LOWER GROWTH RATES AND HIGH INFLATION IS ABSOLUTE INCREASE IN INCOME DISPARITY PARTICULARLY AFFECTING RURAL POOR. POLICY MEASURES OUTLINED PARA 6B ABOVE COULD REVERSE THIS TREND IN LONG RUN IF SERIOUS LIMITED OFFICIAL USE

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COMMITMENT MADE BY GOK.

7. KNOWN OPEC COMMITMENTS: \$3.6 MILLION FROM ARAB FUND FOR AFRICA; NO DISBURSEMENT HAS YET BEEN MADE. GOK NOT OPTIMISTIC ABOUT PROSPECTS OF RECEIVING CONCESSIONARY LENDING FROM OPEC COUNTRIES IN 1975 AS THESE COUNTRIES, AT LEAST TO DATE, INTERESTED ONLY IN PURCHASING REAL ASSETS OR LENDING AT COMMERCIAL RATES.

DECON 1/7/76.

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** FINANCIAL CRISIS, LESS DEVELOPED COUNTRIES, BALANCE OF PAYMENTS DATA, ECONOMIC REPORTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 07 JAN 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** GolinoFR  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975NAIROB00138  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D750007-0200  
**From:** NAIROBI  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t19750173/aaaacvlm.tel  
**Line Count:** 250  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION AID  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 5  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 75 STATE 275634  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** GolinoFR  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 26 AUG 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <26 AUG 2003 by BoyleJA>; APPROVED <27 AUG 2003 by GolinoFR>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** ECONOMIC CRISIS: REVIEW OF KENYAN BALANCE OF PAYMENTS SITUATION  
**TAGS:** EFIN, ETRD, ECRP, KE  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006